



STATE OF ISRAEL
MINISTRY OF COMMUNICATIONS

DIRECTOR GENERAL

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MAY 16 1997
Federal Communications Commission
Office of Secretary

February 27, 1997
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KATHREEN O'BRIEN
INTERNATIONAL BUREAU
2000 M STREET, ROOM 822
WASHINGTON, D.C 20554

IB Dkt. 96-261

Dear Sirs,

It is a great honour for us to refer to the proposals you have made on the subject of the accounting rates published on the 19th of December 1996.

As we know, a meetings with American representatives which lasted from the 12th to the 14th of February 1997, took place in the framework of the WTO agreements in Geneva during which the enclosed document was passed on to your representatives. This document shows the Israeli view point about your proposals.

There is, between Israel and the USA, a free trade agreement which takes into account the fact that the Israeli economy is evolving little by little. Indeed, the annual income rate per person gives to Israel the privilege to be counted as one of the countries reaching a high income rate per person eventhough, as the agreement with the USA stipulates, the Israeli economy still remains at a developing stage.

What we are concerned about is not so much the way in which the cost prices were reckoned but rather the time granted to the countries which possess a high income rate per person for matching the accounting rates with the American operators. The time granted is not reasonable and is neglecting the economic circumstances in which each country finds itself. Although the rules you set up regarding the costs reckoning seemed to be reasonable, the goals are various and the particular regulatory business reality obliges us to set up a gradual matching with the accounting rates.

Since 1992, the Israeli Government has entered a privatization phase in the field of the Telecommunications services which was translated by the granting of a license to the big cellular phone operators such as Motorola as a part of the first operator and including the American company "Bell South" as a partner in the second operator.

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The Israeli government has chosen to open up this branch to competition at a worldwide level and in a gradual but not systematic way. The noticeable decrease that took place during the last years was significant and shows the consciousness on behalf of Israel regarding the need to decrease the accounting rates according to the tariff based on the cost price.

On the occasion of the meetings between your representatives and us in Geneva, one could notice an understanding about the particular economic regulatory situation in which we found ourselves and about the crucial economic need in the gradual decrease of accounting rates so that the settling of the competition process shouldn't be affected.

ACCOUNTING RATES

DATE	STANDARD	DISCOUNT	ECONOMY	(U.S) \$
08.01.87	2.4	2.1	1.9	
01.01.92	2.28	1.97	1.63	
01.01.93	2.16	1.85	1.4	
01.01.95	1.94	1.67	1.26	
01.07.95	1.9	1.63	1.23	
01.01.96	1.7	1.45	1.1	
01.06.96	1.18	1.18	1.18	

The considerable decrease in the accounting rates as mentioned in your proposals (within one or two years) might put all of the leaders in the field of the Israeli international telecommunications (in particular, the two new leaders) in such conditions that they wouldn't be able to function and would unwillingly prevent the competition from taking place in the field of international services in Israel.



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The limited competition in the field of international services that is taking place between the three important operators in Israel represents the first step in the Israeli Telecommunications services (excluding the competition in the field of cellular phones) and a stepping stone in the settling of competition within the Israeli Telecommunications services. The three international operators have the exclusivity until the first of January 2002 and one of the conditions to enhance competition is essentially dependent on the possibility to reach an agreement about the decrease in the accounting rates so that it should reach a total of 15% per year.

We are of the opinion that Israel, the economy of which is still developing and which is endowed with particular conditions regarding the opening up of the Communications branch to competition, needs to benefit from a longer period for the adjustment of the accounting rates so that it reaches a decreasing rate of 15% per year for at least the next three years in order for us to appreciate the achievements as regards to competition in three more years. According to those results, we will then be able to decide whether or not to increase the decreasing rates up to more than 15% per year so that by the end of the exclusivity period and opening up to more competition and by the time the accounting rates will match with a tariff closer to the cost price as mentioned in your proposals regarding Israel.

Sincerely yours,


Shimon Waxe
Director-General



MISSION PERMANENTE D'ISRAEL
AUPRES DE L'OFFICE DES NATIONS UNIES
ET DES ORGANISATIONS INTERNATIONALES A GENEVE

נציגות ישראל
ליד משרד האומות המאוחדות
והארגונים הבינלאומיים בג'נבה

Geneva - February 10, 1997

Ambassador Jeffrey Lang
Deputy U.S.T.R.
Republic of U.S.A.

Dear Mr, Ambassador,

**Re: The Response of the State of Israel to the Position of the FCC Regarding
Accounting Rates**

In 1992, the Ministry of Communications of Israel commenced the process of opening the field of communications to competition, in stages and in accordance with our unique approach which will be explained below.

In the past, a license for providing cellular phone services was granted to a group headed by Motorola. In the framework of introducing competition, an additional license was now granted to a group headed by the American company BellSouth.

Last week two licenses were granted to companies which had won our tender for the provision of all international services. Each one of the winning companies is headed by an American company; either Southwestern Bell or Sprint.

The tender outlined a strict regulatory system with regard to international services and detailed the basic obligations to which operators must commit themselves. Half of the points that could be won in the tender were awarded according to the criterion of consumer prices. The strict regulatory system determined that for countries from which incoming traffic exceeds outgoing traffic by 50% or more, the maximum reduction in accounting rates per year would be 15%.

telecommunications market to competition in general, and to the area of international services in particular.

Taking into account the significance of international services in the Israeli communications market as a whole, such dramatic reduction in accounting rates would cripple the chances of opening the communications market to competition, and cause a loss of confidence in the liberalization process of the Israeli communications market among foreign investors, and perhaps most especially among large American companies,

We agree to the FCC's general proposal regarding the reduction of accounting rates, and even to the principle of cost-based accounting rates which establishes the rate at 31 - 47 cents per minute. However, we request that the preparation time allotted to new operators in Israel be much longer than proposed. The State of Israel insists that the rate of annual reduction be 15%. Any larger reduction in accounting rates over a shorter period of time could, as previously mentioned, hinder the prospects of introducing competition in international services, and thus, seriously harm the American companies which are partners with the Israeli companies who have licenses.

Sincerely,



Shlomo Waxe
Director General
Ministry of Communications

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Agreement
on the Establishment of a Free Trade Area
between the Government of Israel
and the Government of the United States of America

[PREAMBLE]

The Government of Israel and the Government of the United States
of America,

- Desiring to promote mutual relations and further the historic
friendship between them;
- Determined to strengthen and develop the economic relations
between them for their mutual benefit;
- Recognizing that Israel's economy is still in a process of
development;
- Wishing to contribute to the harmonious development and
expansion of world trade;
- Wishing to establish bilateral free trade between the two nations
through the removal of trade barriers;
- Wishing to promote cooperation in areas which are of mutual
interest;

have decided to conclude this Agreement: